

TRANSMITTAL MATRIX CAM CHANGES

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V-14 5264	"SBC Telecom, #1"	"Regulatory"	Added service to affiliate	Under \$100K
V-14 5264	"SBC Advanced Solutions, #20"	"Primary Inter-exchange Carrier Services"	Added service to affiliate	\$300K
V-14, 18	"Automotive Services (FDC, FMV)"	N/A	Deleted service category, no longer provided	N/A
V-14, 19	N/A	"Telecommunications Services (FDC)"	Added service category	N/A
V-15	"SBC Advanced Solutions, #20"	"Customer Care (FDC, FMV)"	Deleted service to affiliate, provided to this affiliate under marketing	N/A
V-15	"SNET America, #28"	"Customer Care (FDC, FMV)"	Deleted service to affiliate, provided to this affiliate under marketing	N/A
V-15	"SBC Management Services, #13"	"Human Resources Support (FDC, FMV)"	Deleted service to affiliate	N/A
V-16-19	"Ameritech New Media, LLC, #46"	"Ameritech Payphone Services, Inc, #46"	Deleted affiliate name, replaced with another affiliate name	N/A
V-16-19	N/A	"SBC IP Communications, Inc, #47"	Added affiliate name	N/A
V-16 5270	"Cingular Wireless, LLC, #44"	"Billing & Collections, Tariff"	Added service to affiliate	\$2.5 million
V-16 5270	"Prodigy Communications Limited Partnership, #45"	"Billing & Collections, Tariff"	Added service to affiliate	\$1.1 million
V-16 5001-5230	"SBC DataComm, Inc, #37"	"Tariffed Telecommunications Services"	Added service to affiliate	Under \$400K
V-16	"Ameritech International, Inc, #43"	"Tariffed Telecommunications Services"	Deleted service to affiliate	N/A
V-16 5001-5230	"Prodigy Communications Limited Partnership, #45"	"Tariffed Telecommunications Services"	Added service to affiliate	\$1.2 million

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V-16 5280	"SBC Asset Management, #31"	"CPE and Wire Services, PP"	Added service to affiliate	Under \$100K
V-16 5280	"Ameritech Advanced Data Services, Inc , #33"	"CPE and Wire Services, PP"	Added service to affiliate	Under \$500K
V-16	"Ameritech Corporation, #38"	"CPE and Wire Services, PP"	Deleted service to affiliate	N/A
V-17 1220	"Ameritech Services, Inc , #36"	"Inventory"	To reflect assets transferred	\$1.6 million
V-17 2112, 2114, 2122	"SBC DataComm, Inc , #37"	"Furniture and Office Equipment", "Tools", and "Vehicles"	To reflect assets transferred	\$6.9 million
V-17 2112	"SBC Global Services, Inc , #32"	"Vehicles"	To reflect assets transferred	Under \$1 million
V-17	"#31, 32, 34, 35, 37-39, 41, & 43"	"Finance and Treasury Services (FDC, FMV)"	Deleted service to affiliates	N/A
V-17	"Ameritech Credit Corporation, #39"	"Administrative Services (FDC, FMV)"	Deleted service to affiliate	N/A
V-17	"Ameritech Corporation, #38"	"Official Communications (FDC, FMV)"	Deleted service to affiliate	N/A
V-17	"Ameritech Corporation, #38"	"Real Estate Services (FDC, FMV)"	Deleted service to affiliate	N/A
V-18 6623	"Ameritech Payphone Services, Inc , #46"	"Marketing Services (FDC, FMV)"	Added service to affiliate	Under \$100K
V-18	"#33-35, 40, & 43"	"Temporary Projects (FDC, FMV)"	Deleted service to affiliates	N/A
V-18	"Prodigy Communications Limited Partnership, #45"	"Marketing Services (FDC, FMV)"	Deleted service to affiliate	N/A
V-18	"Ameritech Advanced Data Services, Inc , #33 & Ameritech Services, #36"	"CPE & Wire Services (FDC, FMV)"	Deleted service to affiliate	N/A
V-18	"Duplicated Telephone Directory Services (FDC)"	"Regulatory (FDC)"	Changed name of duplicated Telephone Services to Regulated service category	N/A

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Description of change

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V-19 6728	"Ameritech Advanced Data Services, Inc , #33"	"Telecommunications Services (FDC)"	Added service to affiliate	\$2 6 million
V-19 2111-2441, 6110-6441	"Cingular Wireless, LLC, #44"	"Telecommunications Services (FDC)"	Added service to affiliate	Under \$100K
V-19	"#32, 34, 37, and 38"	"Human Resources Support (FDC, FMV)"	Deleted service to affiliates	N/A
V-20-24	"SBC ComVentures, Inc , #9"	N/A	Deleted affiliate name	N/A
V-20-24	"National Telecommunications Alliance, #2"	"SBC Telecom, #2"	Deleted affiliate, replaced with another affiliate	N/A
V-20-24	"SBC Telecom, #32"	"SBC Telecom, #2"	Moved services to update matrix	N/A
V-20-24	"Pacific Bell Wireless, #8" and "Southwestern Bell Wireless, #15"	"Cingular Wireless, LLC, #27"	Moved services from #8 & #15 over to Cingular Wireless, LLC, #27 to reflect ongoing company reorganization	N/A
V-20-24	"Pacific Bell Wireless, #8"	"Southern New England Telecommunications, #8"	Deleted affiliate, replaced with another affiliate	N/A
V-20-24	"Southern New England Telecommunications, #33"	"Southern New England Telecommunications, #8"	Moved services to update matrix	N/A
V-20-24	"SBC Technology Resources, Inc , #11"	"SBC Laboratories, Inc , #11"	Updated affiliate name	N/A
V-20-24	"Southwestern Bell Wireless, Inc , #15"	"Ameritech Advanced Data Services, #15"	Deleted affiliate, replaced with another affiliate	N/A
V-20-24	"Ameritech Advanced Data Services, #34"	"Ameritech Advanced Data Services, #15"	Moved services to update matrix	N/A
V-20-24	"AMDOCS, Inc , #17"	N/A	Deleted affiliate	N/A
V-20-24	"N/A, #21"	"SBC DataComm, Inc , #21"	Added affiliate	N/A

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V-20	N/A	"Interconnection Services, PFA"	Added service category	N/A
V-20	"National Security Emergency Preparedness and Network Reliability, Security and Inter-dependability Services (FDC)"	N/A	Deleted service category	N/A
V-20 6210-6362, 2210-2362	"Amertech Advanced Data Services, #15"	"Telecommunications Services and Equipment, PP"	Added service from affiliate	Under \$100K
V-20 6540	"Cingular Wireless, LLC, #27)	"Interconnection Services, PFA"	Added service from affiliate	\$18.5 million
V-21	"White Pages Directory Services, (FDC)"	"White Pages Directory Services, (FDC) or at no charge Publishing, Inc."	Updated service name	N/A
V-21 2112	"SBC Management Services, Inc., #10"	"Motor Vehicles"	To reflect assets transferred	Under \$100K
V-21 2122, 2123	"SBC Telecom, #2"	"Furniture and Office Equipment"	To reflect assets transferred	\$2.9 million
V-21 2112	"SBC Global Services, Inc., #30"	"Motor vehicles"	To reflect assets transferred	Under \$100K
V-21	N/A	"Inventory"	Added asset category	N/A
V-21 1220	"Amertech Services, #5"	"Inventory"	To reflect assets transferred	Under \$400K
V-21 1320	"SBC Operations, Inc., #1"	"White Pages Directory Services, FDC"	Added service from affiliate	\$3.3 million
V-22 6610-6613	"SBC Management Services, Inc., #10"	"Marketing Services, (FDC, FMV)"	Added service from affiliate	\$1.7 million
V-22	"SBC DataComm, Inc., #21"	"Telecommunications Services and	Added service from affiliate	\$33.4 million

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6210-6362, 2210-2362		Equipment, (FDC, FMV)"		
V-22 6121	"SBC Advanced Solutions, Inc , #12"	"Real Estate Support Services, (FDC, FMV)"	Added service from affiliate	Under \$100K
V-22	"Marketing, (FDC, FMV)"	"Marketing, (FDC, FMV) Employee referrals at no charge from SBCLD "	Updated service name	N/A
V-22	"Southwestern Bell Communications Services, Inc , #23"	"Marketing Services, (FDC)"	Added service from affiliate	N/A
V-22-24	"Ameritech Services, #5"	"Real Estate Support, Corporate Governance, Finance & Treasury, External Affairs and Government Relations, and Human Resources Support (FDC)"	Deleted service from affiliate	N/A
V-23 6726	"SBC Management Services, Inc , #10"	"Procurement Support Services, FDC"	Added service from affiliate	\$42 million
V-24 6210-6362, 2210-2362	"SBC Management Services, Inc , #10"	"Telecommunications Services and Equipment, (FDC)"	Added service from affiliate	Under \$1 million
V-24 6210-6362, 2210-2362	"SBC Operations, Inc , #1"	"Telecommunications Services and Equipment, (FDC)"	Added service from affiliate	\$24.2 million

AMERITECH/NEVADA BELL/PACIFIC BELL/SOUTHWESTERN BELL TELEPHONE
COST ALLOCATION MANUAL (CAM)

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SECTION I - INTRODUCTION

OVERVIEW

In compliance with the Federal Communication Commission (FCC) Report and Order (the "Joint Cost Order"), CC Docket No. 86-111, released February 6, 1987¹, Amertech, Nevada Bell, Pacific Bell and Southwestern Bell Telephone (the "Companies") have prepared a Cost Allocation Manual (CAM) based on the attributable cost method of fully distributing costs, with an emphasis on cost causation. This CAM provides the Companies' methodology for separating the costs of regulated telephone service from the costs of nonregulated activities.

The Joint Cost Order established two separate but complementary sets of rules: (1) a cost allocation process which separates the costs of regulated and nonregulated activities offered by a carrier, and (2) rules governing transactions for goods and services between a carrier and its nonregulated affiliates. These rules require carriers to file and maintain current CAMs describing the application of these rules to their particular operations, the results of which are reviewed by an independent auditor.

This CAM establishes the procedures for the identification of costs associated with nonregulated activities. These procedures follow the FCC rules and are intended to guard against the subsidy of nonregulated activities by regulated activities and to detail transactions between the Companies and their nonregulated affiliates. The Companies' CAM complies with the FCC's Joint Cost Order, Order on Reconsideration², and Order on Further Reconsideration³, in CC Docket No. 86-111, and Report and Order in CC Docket No. 96-150⁴, RAO 19⁵ and RAO 26⁶.

¹In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities, CC Docket No. 86-111, Report and Order ("Joint Cost Order") (released February 6, 1987).

²In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities, CC Docket No. 86-111, Order on Reconsideration, (released October 16, 1987)

³In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities, CC Docket No. 86-111, Order on Further Reconsideration, (released November 18, 1988).

⁴ In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, CC Docket No. 96-150, Report and Order, released December 24, 1996 (FCC 96-490) (Report and Order)

⁵ Re: CC Docket No. 86-111 Cost Allocation Manual-Format and Filing procedures, Responsible Accounting Officer (RAO) 19, Released December 23, 1991, (DA-91-1570)

⁶ Re: Cost Allocation Manuals – Section V, Transactions with Affiliates, Responsible Accounting Officer (RAO) 26, Released May 6, 1998, (DA 98-855)

COST ALLOCATION REQUIREMENTS

Regulated products and services refer to activities which (a) are subject to the Title II tariff filing requirements, (b) are common carrier products and services tariffed by the state commissions; or (c) are non-tariffed activities offered incidental to the Companies' regulated tariffed services. Products and services which are preemptively deregulated by the FCC or which have never been subject to regulation are classified as nonregulated activities. Regulated services the FCC ordered to be treated as nonregulated for federal accounting purposes are also classified as nonregulated activities.

All Companies' revenues, expenses and investments are recorded on the regulated set of books in accordance with the Uniform System of Accounts, Part 32 of the FCC's Rules and Regulations. In accordance with Part 64, The Companies use the attributable cost method of fully distributed cost allocation to apportion total company booked costs between regulated and nonregulated activities.

THE ATTRIBUTABLE COST ALLOCATION CONCEPT

The CAM utilizes an attributable cost allocation approach (i.e., fully distributed costing) that provides for an evaluation of all direct and all other costs that bear a direct or indirect causal relationship to nonregulated activities. The CAM accounts for all of the costs contained in appropriate Part 32 accounts. Any costs not accounted for by a tariff rate, direct cost assignment, or direct or indirect cost causal apportionment, will be allocated via the marketing allocator or the general allocator.⁷

Attributable cost, as applied in the CAM, dictates the necessity of a careful study of all costs and the identification of a causal relationship between each cost and its related final cost objective(s). Emphasis is placed on direct assignment, then attribution.

The CAM's attributable cost approach also provides sufficient controls to ensure that all of the Companies' costs are accounted for and that no cost is counted more than once in the calculation of total costs for nonregulated activities. The attributable costing approach presented herein supports this objective.

THE COST POOL ALLOCATION CONCEPT

Cost pools are the vehicles through which direct costs are assigned and common costs are allocated to regulated and nonregulated cost objectives. Cost pools contain only homogeneous cost data. A homogeneous cost pool, as described here, contains costs similar in nature. All costs that are not directly assigned are allocated to final cost objectives via these homogeneous cost pools. Thus, whenever a cost is applicable to regulated and nonregulated cost objectives, that cost will be assigned to the proper cost pool and then will be allocated. The allocation process will attribute all cost data in that pool to regulated and nonregulated activities.

⁷ Joint Cost Order at para 161

THE COST CLASSIFICATION CONCEPT

The CAM categorizes costs according to the following fully distributed costing hierarchy:

- (1) Tariff rate: When regulated services are used in the provision of nonregulated products and services, the Companies will **impute the regulated service at its tariffed rate to the nonregulated product or service. Imputation to nonregulated requires the Companies** to record a debit to Account 5280, Nonregulated Revenue (and credit regulated revenue), to charge nonregulated the tariff rate for use of the regulated service
- (2) Direct Assignable Costs Those costs that are directly identifiable with (exclusively used for) regulated or nonregulated activities. The Companies CAM will use the direct assignment method for as many costs as possible
- (3) Directly Attributable Costs: Costs associated with resources and assets used to provide both regulated and nonregulated services are attributed using direct measures of cost causation.
- (4) Indirectly Attributable Costs Costs associated with resources and assets used to provide both regulated and nonregulated services, which require an indirect (surrogate) measure of cost causation in order to relate the costs to a final cost objective, are attributed using the indirect measure.
- (5) Residual Costs:
 - (a) Costs Allocated by the General Allocator: Shared residual costs (non-marketing) incurred for the common benefit of both regulated and nonregulated activities, but which are considered unattributable, i.e., for which no causal relationship exists, are allocated to regulated and nonregulated activities by the general allocator. These costs will be grouped into a cost pool and allocated to regulated and nonregulated activities as described in the Order on Reconsideration.
 - (b) Costs Allocated by the Marketing Allocator: Shared residual marketing costs incurred for the common benefit of both regulated and nonregulated activities, but which are considered unattributable, i.e., for which no causal relationship exists, are allocated to regulated and nonregulated activities by the marketing allocator

COST ALLOCATION PROCEDURES

The following provides the procedures for separating the costs of nonregulated activities from the costs of regulated activities. These procedures were filed with the FCC pursuant to the Joint Cost Order permitting each of the companies to prepare and file with the FCC a Cost Allocation Manual (CAM) as a prerequisite to engaging in nonregulated activities. The CAM should be considered an evolving document and not a final statement of position.

The CAM is a costing method used for the removal of CAM developed nonregulated costs from the jurisdictional separations process. As the Commission recognized in the Joint Cost Order, it "is not our purpose, nor should it be our purpose, to seek to attribute costs to particular nonregulated activities for purposes of establishing a relationship between cost and price"⁸. The Companies agree that the CAM method should not dictate pricing strategy.

The CAM is based on accounting for all costs recorded in appropriate Part 32 accounts in the Companies' books of account and supplemental records as required by the FCC. This concept allows an auditor to "audit" the development of the nonregulated activities' total costs by tracing back to the source of those costs in the Company's books of account. The CAM will serve to assist in provision of an audit trail that tracks costs from the books of account to appropriate final cost objectives (i.e., total regulated or total nonregulated activities).

COST ALLOCATION MANUAL SECTIONS

The Companies' CAM is comprised of the following sections in accordance with RAO 19.

Section I – Introduction - This section describes the cost allocation requirements; the attributable cost allocation concept; the cost pool allocation concept; the cost classification concept; and cost allocation procedures.

Section II – Nonregulated Activities - This section contains descriptions of nonregulated activities that the Companies offer. A matrix indicates which accounts are impacted by each nonregulated activity.

Section III – Incidental Activities - This section includes a listing of activities which the Companies classified as incidental for accounting treatment pursuant to the guidelines set forth in the Joint Cost Order. This section also includes a brief statement of these guidelines.

Section IV – Chart of Affiliates - This section contains a chart of the Companies' affiliates.

Section V – Transactions with Affiliates - This section lists the transactions between the Companies and its affiliates. A matrix indicates, by service, which affiliates provide transactions to the Companies and which affiliates receive transactions from the Companies in accordance with RAO 26. The provisions of RAO 26 apply to all affiliate transactions and are detailed in Section V.

Section VI – Cost Apportionment Tables - This section contains a full description of the cost apportionment table development, and the cost apportionment table itself which addresses appropriate Part 32 accounts. The introduction defines the column headings in the cost apportionment table: USOA

⁸ Joint Cost Order at para. 40

Part 32 accounts; cost pool name, cost pool identification basis, cost pool apportionment method, and the comments section

Section VII – Time Reporting Procedures - This section contains time reporting methods, a discussion of teaching, monitoring and reinforcing time reporting systems, methods and procedures, and an explanation of how nonproductive time is allocated. Per RAO 19, Section VII contains a matrix showing the time reporting method used by each employee group

DEFINITIONS

This section provides definitions of general terms used throughout this manual. Definitions of more specific terms unique to a section will be defined in that section.

AOCs – Ameritech Operating Companies, i.e., Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; The Ohio Telephone Company; and Wisconsin Bell, Inc.

CAM - Cost Allocation Manual – The CAM is the Companies' manual that documents the methods used to separate regulated and nonregulated costs. The CAM comprises the seven sections previously listed, i.e., Introduction; Nonregulated Activities; Incidental Activities; Chart of Affiliates; Transactions With Affiliates; Cost Apportionment Tables; and Time Reporting Procedures. The rules pertaining to the CAM are codified in the Code of Federal Regulations, Title 47, Part 64.901-904, Subpart I – Allocation of Costs.

The "Companies" – Ameritech (i.e., **Ameritech Operating Companies**), Nevada Bell, Pacific Bell and Southwestern Bell Telephone.

FDC - Fully Distributed Cost – Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. (CFR 47 64.901(a)) This method is also known as fully distributed cost (FDC). The FDC methodology was described previously in Section I under "The Cost Classification Concept" (Joint Cost Order, para. 161). Per the Accounting Safeguards Order, para. 165, the FCC concludes, "... that a reasonable rate of return to be used by all incumbent local exchange carriers in determining the fully distributed costs associated with affiliate transactions is the rate of return on interstate services, as amended periodically by the Commission. In establishing the prescribed interstate rate of return, the Commission considered the cost of capital to provide interstate access services and prescribed a rate of return of 11.25% for the local exchange carriers."

General Allocator - The method by which expenses that are considered unattributable are allocated to regulated and nonregulated activities. This method will not be applied to residual marketing expenses.

Marketing Allocator - The method by which marketing expenses that are considered unattributable are allocated to regulated and nonregulated activities. The marketing allocator will be employed to determine the regulated and nonregulated amounts of residual marketing expenses.

NB – Nevada Bell Telephone Company (a/k/a Nevada Bell)

OCS - Official Communications Service.

PB – Pacific Bell Telephone Company (a/k/a Pacific Bell)

RAO - Responsible Accounting Officer letter issued by the FCC.

SBC - SBC Communications Inc - The parent entity of the Companies.

SWBT - Southwestern Bell Telephone, L.P. **(a/k/a Southwestern Bell Telephone)**

Telco - Telephone company.

USOA - Uniform System of Accounts (Part 32)

SECTION II – NONREGULATED ACTIVITIES

The Companies presently offer the following nonregulated activities. If individual operating companies are not specified, the activity is provided by Ameritech, Nevada Bell, Pacific Bell and Southwestern Bell Telephone.

Billing and Payment Processing Services - Southwestern Bell

This service provides billing and processing of customer bill payments for outside third parties and affiliates. It includes billing, customer support, receiving, depositing and processing the payments and creating the payment data.

Computer Services

Computer services involve the offering of a capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available data which may be conveyed via intraLATA telecommunications. It includes the E911 automatic location identification (ALI) service, which is also offered interLATA on an integrated basis in accordance with CC Docket No. 96-149.

It also includes computer bureau services, which involve providing the use of company-owned or leased computer hardware, as well as the systems personnel, to process software owned or licensed by the customer. It also involves related report generation and systems maintenance. Also included is Responsible Organization Services offered by Ameritech.

Customer Premises Equipment and Wire Services

These services include the sale or lease, installation, maintenance and repair of customer premises equipment (CPE), simple and complex wire, intra- and inter-building cable and voice, data and/or video equipment as well as other related telecommunications equipment on the customer's side of the network interface. For example, this would include Digital NCTE. This service also includes installation, maintenance and/or management services (e.g., consulting, design, engineering and administration activities) associated with customer-owned networks. These network plans can consist of customized wiring (copper, coaxial or fiber) and/or equipment that provide voice, data and/or video services. Inside wire maintenance plans are also offered as a part of this service.

Directory Listing Services

These services include the provision of (1) nonregulated operator-assisted directory information, including listings for out-of-region interLATA telephone numbers, such as National Directory Assistance, International Directory Assistance and Reverse Directory Assistance, (2) directory-provided information services such as Category Search, and (3) electronic directory services, such as Electronic White Pages and Reverse Number Search, in which directory listing information is provided in response to an electronic customer request.

Directory White Page Service - Southwestern Bell

This service involves providing individual business customers with advertising in the business white pages through the sale of enhanced listings (e.g., "Feature Bold Listing") and cover advertising.

Incidental InterLATA Services – Ameritech, Pacific and Southwestern Bell

This activity is classified as nonregulated for accounting purposes and consists of certain incidental interLATA services that the Companies were authorized to provide pursuant to Section 271(g) (but not including interLATA services described at 271(g)(4)) of the Telecommunications Act of 1996. Such services were not previously authorized or permitted under the Modification of Final Judgment ("MFJ"). These services are being classified as nonregulated, even though they may be provided under tariff, pursuant to the requirements of the Accounting Safeguards Order, CC Docket No. 96-150, adopted December 23, 1996, paragraphs 75-76.

Marketing Services

Marketing services include retail sales of products and the administrative support of sales operations, including joint marketing, for outside third parties and affiliates.

Pay Telephone CPE and Service

CC Docket 96-128, Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, adopted rules to implement Section 276 of the Telecommunications Act of 1996 which established pay telephone service as a competitive nonregulated service. The new law required the reclassification of pay telephone equipment and service to nonregulated effective April 15, 1997. Consistent with the 1996 Act's definition, "payphone service" means the provision of public and semi-public pay telephones, the provision of inmate telephone service in correctional facilities and any ancillary services.

Phone Cost Management Support - Ameritech, Nevada and Pacific Bell

Phone Cost Management Support offers customers such products as Customer Dialed Account Recording (CDAR) and Account Code. The products permit a customer to add a customer-designated account number to the Automatic Message Accounting (AMA) record for any Station Message Detail Recording (SMDR) call. The record is provided to the customer with the monthly bill and contains all information required for SMDR plus the customer-designated account number.

Planning and Development Activities

This service involves the planning and development of potential nonregulated services, and also includes regulated services that are classified as nonregulated. These planning and development activities include all preparation activities prior to introducing the product for public offering. There are no revenues associated with this activity.

Post Sales Customer Care

This activity begins after the initial point of sale until the first bill is rendered to the customer. It includes handling customer complaints, and customer inquiries and change requests related to due dates, services, features, pricing plans, etc.

Professional Services – Ameritech

This activity provides outside third parties with an array of professional services (e.g., legal, tax, marketing, human resources) by third party vendors as well as developed internally. This service also includes provision to outside third parties of training classes/curriculums and training materials which have been developed or acquired for use within the Company, and which may be modified to meet a customer's specific needs. Training services for employees of affiliates are provided by a separate subsidiary, as displayed in Section V.

Protocol Conversion - Ameritech, Pacific and Southwestern Bell

The Protocol Conversion service provides net conversions between different transmission protocols (e.g., asynchronous, bisynchronous, X.25, X.75, 370 SNA, X.PC), excluding conversions between X.25 and X.75. Net conversion occurs when the protocol originated at the sending computer or terminal is different than that delivered at the receiving end.

Protocol processing includes both regulated (basic) and nonregulated (enhanced) components. The basic components support like-protocol transmissions (e.g., asynchronous to asynchronous, X.25 to X.25) and X.25 to X.75 transport, and are offered as tariffed services. The enhanced portion provides net conversion between protocols, excluding X.25 to X.75.

Software Services - Ameritech and Southwestern Bell

These services include: a) the licensing, sub-licensing or other sale of programming efforts to create, maintain or customize software for outside third parties and affiliates, and b) funding the development of applications software by outside third parties and affiliates, for which royalties may be received.

Spread Spectrum Alarm Service – Ameritech

This service provides for the "enhanced" transmission of alarm information between an alarm company and its customers over ordinary telephone loops. This service is provided subject to the conditions outlined in the Commission's AST Order, including that the costs associated with the scanning and routing functions be treated as nonregulated.

Voice Messaging Services – Ameritech

These services provide customers the ability to record customized greetings for incoming messages, and store messages for future retrieval, forwarding and deletion.

NONREGULATED ACTIVITIES

ACTIVITY		
1 Billing and Payment Processing Services	7 Marketing Services	13 Protocol Conversion
2 Computer Services	8 Pay Telephone CPE and Service	14 Software Services
3 Customer Premises Equipment and Wire Services	9 Phone Cost Management Support	15 Spread Spectrum Alarm Service
4 Directory Listing Services	10 Planning and Development Activities	16 Voice Messaging Services
5 Directory White Page Service	11 Post Sales Customer Care	
6 Incidental InterLATA Services	12 Professional Services	

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
ACCT																
1220	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
1410	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
2002			X					X								
2003			X	X		X		X						X	X	X
2111	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
2112	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2114	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2121	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
2122	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
2123	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
2124	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
2211									X							
2212						X			X	X			X			
2220				X												
2231						X										
2232						X									X	
2311			X													
2341		X	X													
2351								X								
2411										X						
2422						X										
2423						X										
2441						X										
2681	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2682	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
2690	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
3100	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
3410	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	

NONREGULATED ACTIVITIES

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
ACCT																
3420	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
3500	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
4100	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
4300	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
4340	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
5280	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
5300	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6112		X	X	X	X	X	X	X	X	X	X		X	X	X	
6114		X	X	X	X	X	X	X	X	X	X		X	X	X	
6121		X	X	X	X	X	X	X	X	X	X		X	X	X	X
6122		X	X	X	X	X	X	X	X	X	X		X	X	X	X
6123	X	X	X	X	X	X	X	X	X	X	X		X	X	X	X
6124	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6211									X							
6212						X										X
6220				X				X								
6231						X										
6232		X				X										
6311			X													
6341			X													
6351								X								
6362		X	X							X						
6421			X													
6422			X			X										
6423			X													
6441			X			X										
6512	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6531			X	X		X	X				X		X			X
6532			X	X		X		X		X						X
6533			X				X	X			X				X	
6534	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6535	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6540								X								
6561	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6563	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6564	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
6611	X	X	X	X			X	X	X	X	X		X	X	X	X

NONREGULATED ACTIVITIES

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
ACCT																
6613		X	X	X			X	X	X		X			X	X	X
6622			X	X	X			X								
6623		X	X	X			X	X	X		X		X		X	X
6720	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
7100	X	X	X	X	X	X	X	X	X		X	X	X	X	X	X
7210		X	X	X	X	X	X	X	X	X	X		X	X	X	X
7220	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
7230	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
7240	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
7250	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
7300	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
7500	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

SECTION III - INCIDENTAL ACTIVITIES

OVERVIEW

Amentech, Nevada Bell, Pacific Bell and Southwestern Bell Telephone (Telcos) classify as incidental, for accounting treatment, those nontariffed activities that meet the qualitative and quantitative criteria promulgated by the Commission. Specifically, each incidental activity listed in this section meets the following criteria:

- a) The activity is an outgrowth of regulated operations;
- b) The activity is not a separate line of business.
 - There is no business or marketing plan,
 - The Telcos do not actively solicit customers for the activity,
 - There is only an insubstantial commitment of resources or investment made by the Telcos
- c) The total revenue of all incidental activities does not exceed, in the aggregate, one percent of total revenues

The incidental activities included herein do not include activities such as nonregulated lines of business, transactions limited to affiliates or court-ordered arrangements, e.g., shared network facilities, equal access. When incidental services are provided to affiliates, the affiliate transaction rules apply. See Section V for services provided to affiliates. Activities provided under state tariffs are not considered incidental.

LISTING OF INCIDENTAL ACTIVITIES:

- 1) Subscriber listing services
Description. The provision of telephone numbers either verbally or in writing in response to lists of names and addresses supplied by the customer according to a prescribed format. The use of the completed list by the customer is restricted to telephone calling purposes. Non-published numbers are not provided, and the Telco assumes no responsibility or liability for any errors that may appear on the completed list. Furnishing lists of telephone subscribers under a license arrangement is tariffed in Wisconsin.

When provided to telephone directory publishers, White Pages listings for specific NNX's are provided to be used only for the publication of telephone directories. Telco also validates White Pages listings and provides updates to publishers for their use in publishing a telephone directory. The collection and maintenance of the information provided to telephone directory publishers is required for Telco's directory assistance and directory White Pages publications.

- 2) Bill insert and printing services
Description Advertising inserts can be placed in Telco bills under contract with third parties. The bill inserts are included as a part of the normal billing process in billing Telco subscribers. Minimal additional costs are incurred since the function is performed mechanically by the billing machine in place. Also, documents, such as Credit Union account statements and account activity confirmations, are printed, enclosed in envelopes and distributed to the third party's clients via the United States Postal Service. This activity will be performed on existing bill rendering equipment during off-peak hours.
- 3) Coordination services
Description After business customers have selected their telecommunications vendors, they may contract with Telco to coordinate and negotiate installation, repair and changes to telecommunications services and/or the handling of billing inquiries for telecommunications services. The coordination functions are similar in nature to services Telco traditionally provided to business customers.
- 4) Surplus space and equipment leasing
Description Surplus space (including land, buildings and towers) on owned, leased or contracted premises acquired to meet the needs of regulated operations, is being leased, licensed or rented to outside entities as a means of contributing to expense recovery. Audio visual and other equipment is rented to third parties when not in use for Telco business. Television studio facilities for the production of video programming and for use in video conference calls are leased at a third party's request. Includes minor repairs and changes to incidental rental space in order to accommodate tenants. Includes rental of central office equipment such as switching and circuit equipment, power equipment and any circuits furnished apart from telephone service rendered by the Companies to third parties. (Amounts received from SNFA (Shared Network Facilities Agreements) and collocation are not included. Rental of available outside plant (other than pole and conduit rentals) to third parties is tariffed in Illinois, Indiana, Michigan, Ohio and Wisconsin.
- 5) Conduit and pole contact leasing (tariffed in Illinois, Indiana, Michigan, Ohio and Wisconsin)
Description Fees are charged to outside entities for occupancy, maintenance, and rearrangements of owned conduit and attachments to poles. Licenses are typically issued to other telephone companies, common carriers, power companies, cable television companies and local governments.
- 6) Provision of intellectual property rights
Description Licensing or other sale of technical know-how, copyrighted materials, and other intellectual property rights developed or otherwise acquired for use in regulated operations. This includes the sale of schematic diagrams for completed jobs; documents, such as Universal Service Order Code (USOC) Manuals, that are sold to third parties; and incidental royalties from inventions developed for the provision of regulated telecommunications service.

- 7) Sale of Advertisements, Audio-Visual Materials and Printed Matter
Description: Sale to others of advertisements, audio-visual tapes/materials, and various printed matter including methods and procedures developed for use in regulated operations. This also includes paid advertisements by third parties in Telco employee newspapers and magazines.
- 8) Provision of software
Description: Software developed for regulated operations is sold or licensed to outside entities and affiliates. No logic modifications are provided. Changes are limited to logo or symbol differences or minor modifications required due to operating system or equipment differences. If upgrade releases occur for regulated operations, such upgrade releases may also be made available.
- 9) Work performed for others
Description: Occasionally, nonaffiliated utilities or government entities request the performance of miscellaneous network activities that require specialized equipment and skills possessed by Telco work forces. This includes work performed for others on an emergency situation such as a natural disaster, but does not include work performed on Telco plant or work associated with nonregulated lines of business like provision of inside wire. This also includes locating buried and underground cable on a contract basis for third parties, provisioning and maintenance of circuits to monitor the independent telephone company's cable plant and central office equipment for conditions such as power failures and environmental problems; and maintenance testing of third party interoffice trunks and cable.
- Custom work is nontariffed construction work (including the associated engineering and design) performed on the network side of the demarcation point by the Telcos for nonaffiliated persons or companies, incident to the billing company's regulated telecommunications operations, at the request of or on behalf of the nonaffiliated person or company. This work is similar in nature to the activities performed by the Companies in the provision of their own telecommunications operations. For example, telephone company plant forces may perform various nontariffed services requested by customers such as setting of poles or the temporary installation of facilities for news or sport events.
- 10) Special billing arrangements
Description: When requested by a customer, nontariffed special billing information is provided by reformatting existing data, providing the data at different levels, or providing supporting detail not included in a tariffed service offering. Billing service and/or customer account information may also be provided to interstate interexchange carriers (IXCs), including the ability for them to identify their presubscribed customer base. IXCs are also offered the ability to allow their customers to use commercial credit cards as payment for telecommunications services in lieu of the IXC's credit cards. This service consists of recording, bill rating and the transmission of billing data to the credit card company or the IXC. Special billing arrangements for billing detail in other than printed form includes the provision of billing detail (such as itemized message detail) to subscribers in the form of reproductions of punched cards or magnetic tapes and is tariffed for